



Decision makers and experts at Reuters Summit examine geopolitical and market upheaval rattling energy industry

POWERFUL SHOCKS

CONFRONTATION across the Middle East, carnage in Syria, an oil-led industrial revolution in North America, stagnating nuclear output, and a crisis of confidence in renewables have left the world's energy industry in turmoil.

Will war stop exports from the biggest

oil producers? Will new shale oil and gas reserves meet the world's fuel needs -- or cook the Earth's atmosphere forever? Will economic depression mean a permanent decline for Western energy demand and the death of the European refining industry?

At the Reuters Global Energy and

Environment Summit 2012 this week, dozens of decision makers in the energy and climate businesses addressed these key questions in closed sessions with Reuters journalists.

Government officials, top executives and other experts gave their views of the issues the opportunities and challenges ahead.

Oil prices still pose risk to global recovery, IEA says

BY MURIEL BOSELLI
PARIS, MAY 16

OIL PRICES REMAIN a threat to the fragile global economic recovery despite a recent fall, the International Energy Agency's chief economist said, adding the IEA remained ready to release emergency oil stocks if needed.

North Sea Brent crude oil reached a peak of more than \$128 in March before declining around \$15 gradually over the last two months as tensions in the Middle East have eased and oil supplies have increased.

"Even current prices are far too high for the current economic context... and pose a serious risk," the IEA's chief economist Fatih Birol told the 2012 Reuters Global Energy & Environment Summit. "Economic recovery was especially at stake in Europe, the U.S., Japan and China," he added.

"I'm concerned for Europe and I'm also very concerned that these high prices would hit the still hesitant and slow U.S. economic recovery," Birol said.

Birol repeated that the Paris-based agency, which advises 28 industrialized nations on energy issues, remained ready to release strategic oil stocks if needed.

Oil markets have been on alert for a possible release from strategic reserves after news in March the United States had held talks with the British and French on the issue.

In an election year, the U.S. administration is anxious to bring down gasoline prices as the summer driving season looms and further debate is expected at G8 talks at the end of this week in Camp David, United States.

"We are monitoring the oil market all the time, we look at economic and stock data, and remain ready to act if market conditions warrant," Birol said.

The European Commission said it saw no immediate need for any release of oil stocks although it was in close contact with the United States and the IEA.

Iraq was the only country in the world which could significantly increase oil production given the decline of existing fields and rising demand in emerging countries, Birol said.

Iraq is potentially one of the world's last great unexplored territories after decades of neglect due to wars and sanctions.

"If there is no good news from Iraq, it's a bad news for the global oil outlook in the short, medium and long term," he said.

Birol said he was concerned over the risk of a lack of investment in the Middle East and Northern Africa after the Arab Spring, a wave of protests which forced dictators out of power.

"When I look at investment schemes and investment appetite in some key Middle Eastern and Northern African countries, I see that several investments are diverted to social spending, to infrastructure spending," Birol said.

Beneficiaries from high oil prices included the Organisation of the Petroleum Exporting Countries (OPEC) and Russia.

OPEC's revenue in 2012 was likely to reach or exceed \$1.2 trillion, up \$140 billion on 2011 if oil prices remained at current levels. Russian earnings from oil and gas exports would reach \$400 billion, some 25 percent of the country's gross domestic product.

"In the oil market, there are always winners," he said.

(Additional reporting by Dmitry Zhdannikov and Oleg Vukmanovic; Editing by William Hardy)



TOO HIGH? Demonstrators carry a motor bike to protest a price hike in petrol in New Delhi, Nov. 4, 2011.

REUTERS/PARIVARTAN SHARMA

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BYPRODUCTS: Smoke billows from a plant of U.S. chemical producer Dow near the eastern German village of Lippendorf, south of Leipzig, March 25, 2004.

EU energy chief presses for much higher carbon prices

BY JEFF COELHO AND NINA CHESTNEY
LONDON, MAY 16

EUROPEAN CARBON PRICES should be at least twice their current value of just over 6 euros (\$7.66) a tonne in order spur investment in cleaner technology, EU Energy Commissioner Guenther Oettinger said.

Europe's recession and fiscal crisis has crippled prices in the European Union's Emissions Trading System, meaning carbon prices are providing little incentive for utilities and other heavy polluters to move to greener production of electricity, steel or cement.

"A (carbon) price of 6 to 8 euros is not a price signal for anything, not for investors and not for consumers," Oettinger told Reuters' Global Energy and Environment Summit on a conference call from Brussels.

"At the moment, looking at the investment crisis, 20 (euros) and more is not really a cost level for our industry to be more competitive," he said. He added that a price range of 12-18

euros a tonne was his personal choice for the moment.

The European Commission has been reluctant to name a level for carbon prices, although the EU executive is reviewing how to tackle a massive supply of pollution permits that have built up since the 2007/2008 recession.

The glut in pollution permits has grown to 900 million, the Commission said on Tuesday.

Coupled with weak demand, the oversupply has spurred about a 60 percent fall in European carbon prices over the past year.

To try to reduce the surplus, the Commission said last month it was bringing forward a review of the carbon market and reassessing its auctioning rules to control when new allowances become available.

Before the Commission breaks for summer in August, it plans to publish its review. Any legal proposals would then have to be debated, with a view to deciding a course of action before the end of the year, EU Climate

Commissioner Connie Hedegaard told reporters on Tuesday.

Speaking at the Reuters' Global Energy and Environment Summit, she would not specify a preferred price level for the carbon market.

Oettinger added that the ETS needed to be made more flexible, so it could respond to unexpected changes in economic growth.

"Our ETS scheme was born before the financial crisis, before Lehman Brothers and before our public budget problems," he said.

To try to improve the economics of low-carbon energy, he said predictable subsidies were useful.

Asked whether Britain, for instance, could be seeking aid for its nuclear plants, he said such power sources should in principle rely on market forces, but was willing to listen to the debate.

"I'm open. If member states want to debate, we have to be ready," he said.

(Additional reporting by
_Barbara Lewis and Karolin Schapps;
Editing by Jason Neely)

Saudis and soaring costs may keep oil above \$100

BY DMITRY ZHDANNIKOV
AND CLAIRE MILHENCH
LONDON, MAY 16

OIL INDUSTRY executives and bankers are assuming oil prices will stay above \$100 a barrel in the year ahead, despite mounting economic worries, as any fall below that level would trigger a cut in Saudi Arabia's output and force closures at high-cost projects around the world.

A straw poll by Reuters of oil executives, traders, bankers and fund managers showed seven respondents predicting Brent crude trading at \$100 to \$120 a barrel in the next 12 months. Four respondents saw prices at \$120 to \$140 and only four at \$80 to \$100.

At a previous summit last June, most respondents also saw prices above \$100.

Then worries centred around supplies following a full outage of Libyan output and OPEC's failure to boost production to compensate for the loss.

By contrast, the current mood is dominated by demand concerns as euro zone collapse worries, poor U.S. economic data and signs of slower demand in China overshadow jitters about a potential loss of Iranian oil supplies.

But although Brent prices are almost \$20 down from their 2012 peaks at \$110 a barrel, few expect a repeat of the 2008 crash which saw them collapsing to \$34 per barrel from an all time high of \$147 in a space of six months.

"The marginal cost of production is the ultimate floor in the oil market. In the North Sea it can be \$80 to \$100 dollars," said Andrew Moorfield from Scotiabank.

"But the real marginal cost of production also includes social costs that some big oil producers need to pay. When you add social costs in Russia and Saudi Arabia, it means that the effective floor on Brent is around \$100 a barrel," he said.

Saudi Arabia has ramped up output to 10 million barrels per day - the highest in decades - to calm market fears over a potential outage of Iranian oil flows amid Tehran's stand-off with the West over its nuclear programme.

Riyadh has said it wants oil to fall to around

SAUDI POWERS: Saudi Arabia Oil Minister Ali al-Naimi (R) and Finance Minister Ibrahim al-Assaf (L) arrive at the International Energy Agency conference in Riyadh, Nov. 20, 2011.



REUTERS/FAHAD SHADEED

"Ultimately the Saudis are the ones that have the single biggest positive influence in the oil price, other than anyone starting a war - which would have a negative but upward impression on oil price."

\$100 a barrel as higher levels damage the global economic recovery.

Saudi's current desired oil price level is only a third higher than \$75 per barrel it sought back in 2008. But its oil price budget needs are estimated to have doubled from \$50 to \$100 as it had to splash money to calm discontent at home and unrest among neighbours.

"I believe there is a floor at \$100. Ultimately the Saudis are the ones that have the single biggest positive influence in the oil price, other than anyone starting a war - which would have a negative but upward impression on oil price," said Philip Wolfe, head of energy EMEA for UBS.

"There is no point for the Saudis having production of 10 million barrels per day at \$50 or even at \$75 per barrel if you can adjust the barrels and keep the oil price up

at \$100 or more... I think the Saudis can do a lot without having to announce anything," he added.

Global inflation might have already pushed the costs of exploring and producing oil from new most expensive projects - known in the industry jargon as the marginal cost of production - above \$100 per barrel, according to JBC energy consultancy.

That compares to \$50 to \$75 prior to the 2008 financial crisis while a decade ago, oil companies such as BP, were saying they would start a project if oil traded above \$17 to \$20.

"The United States is producing an awful amount of oil from tight shale and tight sands reservoirs... If oil prices send a signal and drop below the \$90 to \$80 level, it is going to be uneconomic to drill those wells. So drilling will stop immediately," said Michel Hulme,

fund manager at Lombard Odier.

U.S. tight oil production already amounts to 0.5 million bpd and is expected to rise steeply in the years to come.

Global inflation is not only endangering developments of the most difficult fields but is also testing profitability levels of existing projects or greenfield projects in areas generally seen as low-cost.

"It seems the gap between the cash cost per barrel of existing production and the cost to bring on incremental production is narrower than it has been for a long time," said Bob Maguire, partner at Perella Weinberg, previously with Morgan Stanley and adviser on some of the world's biggest oil mergers.

Even the International Energy Agency, which represents consuming nations, says

production costs have gone up sharply.

"There is not a single drop of oil in the world that cannot be produced at a price of oil of \$85 to \$90," IEA's chief economist Fatih Birol told the summit.

Scarce equipment availability is one of the reasons behind it, according to shipping tycoon John Fredriksen.

"It looks like oil companies will all have to stall part of their drilling programmes because there is limited drilling capacity. There are just not enough rigs around," he told Reuters ahead of the summit.

For Mercuria, one of the world's top oil traders, the dangers are still as much on the upside as on the downside for the oil price.

"The danger is that if for some reason the geopolitical tensions in the Middle East

start rising again, prices could very quickly go back up to where they were one-and-a-half-months ago," said Mercuria's co-owner Marco Dunand.

Consumers seem to be well aware of those risks too.

"With the price going lower in the first few weeks of May, we have seen a very big hedging flow from end users such as airlines, shippers, utilities," said Cyril Youinou, global head of oil trading at Standard Chartered Bank Plc's.

"We believe China will keep on building their strategic reserves especially at this price," he added.

(Additional reporting by Zaida Espana, Simon Falush, Christopher Johnson; Editing by William Hardy)

IBM helps oil companies manage gushers of data

BY BRADEN REDDALL AND MATT DAILY
HOUSTON/NEW YORK, MAY 15

IBM THINKS IT CAN make geologists and engineers more effective at mining the fast-growing wealth of data on everything from oil reservoirs to refineries to help them find, extract and process oil.

The computer services company has spent the past three years building a team of 5,000 consultants, scattered around major oil basins worldwide, to help companies tackle the data explosion.

Just having a lot of data is not enough: As with crude, data must be refined and then shipped out to the people who can use it: those who make drilling decisions with millions of dollars on the line.

"Data management: we see a lot of effort, and by effort I mean investment, in that space," David Womack, IBM's director of strategy and business development for chemicals, petroleum and industrial products, told the Reuters Global Energy & Environment Summit.

"They'll give you these big data sets, and being able to manage and manipulate that is a non-trivial act," he added.

Chevron Corp has estimated its network

manages 1.5 terabytes a day, or equivalent to about 1.5 million books, and says its computers store more information than the Library of Congress.

Much of that is due to the development in recent years of three-dimensional oil reservoir imaging, which is far more data-



REUTERS/GLEB GARANICH

intensive than 2-D seismic imaging. Even on the other end of the oil value chain, refiners deploy thousands of small instruments to monitor various parts of their plants.

"They're about valves and transmitters, and if it creates a pile of data for somebody? They don't think about that," IBM's Womack said.

He said Royal Dutch Shell Plc hired his team to help manage the data deluge.

An equivalent expansion of processing power has been driven by "cluster computing," with multiple computers tied together to solve one huge problem. "As you get faster machines, you can beat out analytics that tell you you've got to change injection rates in this area or that area," Womack said.

"You can hit enter and get an answer back in 10 hours, instead of 10 weeks."

Womack stressed that sophisticated imaging will be crucial in locating new reservoirs now that all the "easy oil" is gone.

Three years after Chevron introduced the industry's first 3-D visualization centers in 1997, the California oil company started working with cluster computers, which are now its standard set up. It retired its last mainframe computer in 2010.

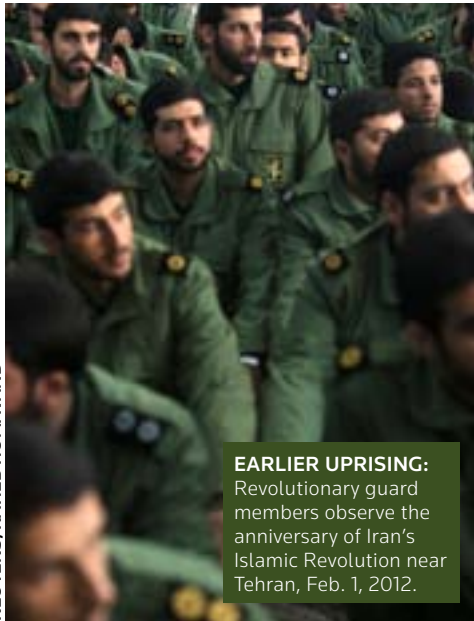
In a 2010 interview, Chevron Chief Technology Officer John McDonald explained how real time reservoir management allowed the company to start up a Gulf of Mexico project three months early. "That data has great utility if you can start making sense of it," McDonald said at the time.

(Editing by David Gregorio)

Mercuria sees lingering Arab spring, firm oil prices

BY CHRISTOPHER JOHNSON
LONDON, MAY 14

OIL PRICES HAVE found a long-term floor at \$90 to 95 per barrel and nearby spot oil prices could rise sharply if Middle East tensions increase again, the co-heads of trading company



EARLIER UPRISING: Revolutionary guard members observe the anniversary of Iran's Islamic Revolution near Tehran, Feb. 1, 2012.

Mercuria said.

Marco Dunand and Daniel Jaeggi, who together founded and run the Swiss-based energy and commodities trader, said prompt oil prices would continue to be vulnerable to worries over the conflict between Iran and the West, a confrontation that was likely to continue.

"The Arab Spring is not over," Jaeggi told the 2012 Reuters Global Energy & Environment Summit.

"What is going on in Syria today is probably the opening chapter of a confrontation with Iran," he said via video-link from Dubai. "We believe that this instability in the Middle East is likely to continue and set a floor for the oil price."

"We appear to have found an anchor price since the end of 2009 where the long-term oil price is fluctuating in the \$90 to \$95 per barrel range," Jaeggi said.

He said recent high oil prices should be sufficient to ensure adequate investment in oil supplies and explained the recent rapid increase in U.S. oil production, in particular the sharp increase in oil supplies from shale.

North Sea Brent crude oil averaged around \$110 per barrel last year and reached a peak of more than \$128 in March before declining

gradually over the last two months as tensions in the Middle East have eased and oil supplies have increased.

Brent traded around \$111 at 1530 GMT on Monday.

Geneva-based Mercuria, founded in 2004, has expanded rapidly from its base in crude and oil products trading and has now an annual turnover of around \$80 billion with operations in energy and other commodities.

Mercuria is one of the world's top five energy traders, moving almost 120 million tonnes of oil, coal and gas a year.

Mercuria President Marco Dunand told the Reuters summit that moves by key oil producers, including Saudi Arabia, over the last two months to supply more oil to the market, had helped move prices down from their peaks.

This had eased fears of a possible shortage in the market and of potential threats to oil supply "whether it is to the Gulf of Hormuz or elsewhere".

"The oil producers have been acting for the last two months to supply more oil to the market, (so) the price premium attached to potential problems has fallen," Dunand said.

Saudi Arabia Oil Minister Ali al-Naimi said on Sunday that the world's biggest oil exporter wanted oil prices around \$100 a barrel and would like to see global inventories rise before demand picks up in the second half of the year.

The kingdom pumped more than 10 million barrels per day (bpd) last month, more than a 30-year high, production that has been helping build oil inventories around the world.

Dunand said oil prices should keep falling as long as oil stocks were seen to keep rising.

"If you have more ample stocks, the market knows it can cope with shocks and the fear factor falls," Dunand said. "If the market sees that stocks are continuing to increase, I think the market will get closer to the \$100 that Naimi mentioned."

"The danger is that if for some reason the geopolitical tensions in the Middle East start rising again, prices could very quickly go back up to where they were one-and-a-half-months ago," Dunand said.

(Editing by William Hardy)



POST-DESTRUCTION: A U.N. observer mission in Syria is seen between destroyed houses near the northern city of Idlib, May 15, 2012.

Japan's JOGMEC to boost spending on oil and gas

BY YUKO INOUE AND YUKA OBAYASHI
TOKYO, MAY 17

STATE-RUN JAPAN Oil, Gas and Metals National Corp (JOGMEC) will boost investment in overseas oil and gas projects this year, disbursing an amount almost equal to the upstream investments made since it was established as it races to secure supplies.

Spending on investment in oil and gas projects is expected to surge to more than 90 billion yen (\$1.12 billion) in the year through March 2013, Hirobumi Kawano, president of the energy explorer JOGMEC said in an interview.

That compares with investments of 106 billion yen in energy projects since JOGMEC was formed in 2004 from the combination of two agencies. The world's third-biggest economy is on a global quest to secure oil and gas supplies after last year's Fukushima crisis knocked out the country's nuclear capacity that accounted for a third of total power supplies.

"From the long-term point of view, investments in upstream assets will help reduce energy costs and allow Japanese customers to acquire energy at a discount," Kawano told the Reuters Global Energy & Environment Summit.

"There will be a spike in spending this year as several large investment projects are in the pipeline," he said.

That is in line with the government's plan to boost JOGMEC's budget for investment in overseas oil and gas projects by 60 billion yen this financial year.

The government-backed agency was assessing more than 20 oil and gas projects, including shale-gas in areas such as Canada, U.S. and Vietnam, Kawano said. He declined to specify individual investment plans.

The rush for energy assets is taking companies like Tokyo Electric Power, the operator of the wrecked Fukushima nuclear plant, and trading house Mitsubishi Corp

anywhere from North America's shale formations to Australia's gas fields.

Tokyo Electric said it was in talks with JOGMEC, Nippon Yusen KK and Mitsubishi to help it invest in Australia's Wheatstone gas field, which is being developed by Chevron Corp, and secure gas supplies for power plants.

The companies are looking at paying \$4.4 billion for a stake. Kawano, however, declined to comment on the investment.



RISING SUN: Steam wafts from an oil refinery in Yokohama, south of Tokyo, Jan. 26, 2011.

REUTERS/KIM KYUNG HOON

JOGMEC signed an agreement last week to search for oil in Kenya and is on a final list of 47 pre-qualified bidders for oil exploration rights in Iraq in an auction due later this month. "Participation in upstream development allows stable supply and help cut asset acquisition costs as they generate returns in the form of dividend payments to investors," Kawano said.

Japan faces the possibility of power

shortages during the upcoming summer months and a threat of mandatory cuts for only the second time since the oil shock of the 1970s, when compulsory savings were introduced after oil prices surged following an Arab oil embargo.

The government will announce energy savings measures as early as this week that may include mandatory cuts as public opposition to nuclear power has meant the shutdown of all 50 plants for maintenance with no timetable for restarts.

The last plant closed on May 5.

Japan spent 12 trillion yen on crude imports and 5.4 trillion yen on overseas LNG purchases in the year ended March.

Imports of gas and oil will rise further this year because of the idling of the nuclear units, Kawano said.

JOGMEC, which was formed when Japan's separate energy and mineral explorers merged, assists in acquisitions by Japanese companies through direct investments and loan guarantees.

The agency spent 40 billion yen in the year ended March on the acquisition of gas and oil assets. One of the investments last year was a roughly 10 billion yen equity financing by JOGMEC of exploration for oil in Malaysia by a unit of JX Holdings in October.

The same month, it agreed to invest about 16 billion yen and take about 49 percent of a venture with energy explorer Inpex Corp looking for oil and gas under the Banda Sea in Indonesia.

The government will unveil a new energy policy in the summer after scrapping plans last year to increase the reliance on nuclear energy to more than 50 percent. The new policy is expected to boost investment in upstream projects further.

"It's likely that our budget on gas and oil exploration will rise further next year depending on the new policy," Kawano said.

(Additional reporting by Risa Maeda;

Writing by Aaron Sheldrick; Editing by Manash Goswami and Himani Sarkar)

Trafigura may increase its Asian investments, staff

BY FLORENCE TAN
SINGAPORE, MAY 15

TRADING FUTURES: A Chinese oil futures trader displays her identity card at the Shanghai Stock Exchange, Aug. 25, 2004.



REUTERS/CHINA PHOTOS

SWISS-BASED TRAFIGURA Beheer BV is evaluating more investments in Asia and increasing headcount as it expands operations to tap the region's growing energy and commodities demand, a senior company executive said.

There is a shift in the global oil demand centre from the West to East as Asian economies expand. As part of plans to tap this growth, the world's third-largest independent oil trader recently announced its first acquisition of a stake in a refinery project in India.

"We've already demonstrated that we're putting investments into the region. We're going to be looking at further opportunities around our trading business," Jonathan Pegler, the director of oil for Asia-Pacific told the Reuters Global Energy & Environment Summit.

"To fit with our business needs, we may

OIL AND WATER: Oil tankers are seen against the skyline of the central business district in Singapore, April 18, 2012.



REUTERS/TIM CHONG

well be taking more storage in different parts of Asia.”

The expansion will be across oil, bulk commodities, which include coal and iron ore, and refined metals, he said.

The Singapore office could expand to include other businesses within the group in future such as Puma Energy, its downstream subsidiary. Puma currently manages the company’s joint venture storage facilities in Malaysia, Pegler said.

“We’re excited about the many opportunities the region is presenting to us,” he said at the company’s new office in Singapore’s central business district, overlooking the Marina Bay. “We were nine people in Asia in 2000 and we recently relocated to the new office that can take 250 people to cater to immediate expansion plans.”

Pegler declined to comment on the number of employees at the Singapore office due to the company’s policy and he also did not elaborate on the projects as they were still under evaluation.

Traders may need to store more crude flowing from West to East as more refineries are being built in Asia while those in Europe and the United States face closure on weak economics. Increasing use of cleaner fuel in Asia will also provide trade opportunities.

“We’re seeing markets moving towards cleaner fuels as customers demand them and refineries make them,” Pegler said.

“This is the biggest development in the product side of the market and is something that we’re keen on supporting by optimising the supply chain and assisting with the availability of cleaner fuels.”

Just last month, Trafigura made its first move into refining in Asia, investing \$250 million for a stake in Nagarjuna Oil Corp Ltd’s (NOCL) planned refinery and storage in southern India.

The 120,000 barrels-per-day (bpd) plant - India’s third privately owned coastal refinery - will process mainly sour crude and start commercial operations in the first half of 2013.

State-run Indian Oil Corp (IOC) has “recently committed to taking lots of the offtake from the refinery,” Pegler said, adding that the bulk of the refinery’s products will go into the domestic market.

The east coast “region is short in products and has a strong growth profile in terms of demand, making the proposition of a refinery in that location highly viable”, Pegler said.

“It is also located on the major East-West trade routes, making it an advantaged location from an international trading perspective. We also like our



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“We’re seeing markets moving towards cleaner fuels ... This is the biggest development in the product side of the market.”

partners in the project.”

By investing in the refinery project, trade sources said Trafigura replaced BP as NOCL’s crude supplier. International oil companies are shifting their focus to oil and gas exploration and cutting back on less profitable downstream refining and retail businesses.

“IT’S GIVEN TRAFIGURA a unique investment opportunity right now,” Pegler said.

Trafigura has been on a buying spree since last year, with its unit Puma Energy picking up assets in Africa, Central and South America from oil majors such as Exxon Mobil, Chevron and BP.

The purchases would soon include a majority stake in Kenya’s KenolKobil as Puma stocks up on assets ahead of a possible initial public offering.

Despite the robust outlook for Asia, the euro zone political and debt crisis has cast a gloomy outlook on the global economy, causing Brent crude to slip more than 6 percent in the past two weeks.

It touched a high of \$128.40 a barrel for the year in March because of supply disruption from North Sea to Africa and on fears that Western sanctions could halt exports from OPEC’s second largest producer Iran.

“The biggest risk to oil price at the moment

is the European situation and declining demand that is apparent in Europe and the West,” Pegler said.

“If the trend continues, I suspect we’ll see weaker oil prices overall.”

Pegler said the market is fairly priced with crude at \$90 to \$110 a barrel.

“Clearly China is impacted at the moment in terms of exported industrial output, but there are no specific Chinese worries where the underlying economy is robust,” he said.

China’s implied oil demand in April dropped to a six-month low and recorded its first yearly decline in at least three years, as a sputtering economy and high crude prices squeezed the appetite of the world’s second-largest oil consumer.

But Pegler sought to allay concerns, saying he did not believe there was “significant demand destruction at these prices, and there’s certainly no shortage in supply aside from short-term supply disruptions”. He was referring to the Western sanctions targeted to stem the flow of petrodollars to Tehran to force it to halt a nuclear programme.

Pegler said buyers have already found alternatives for lost Iranian barrels, but “all parties involved see the need to come up with an international solution”.

(Editing by Manash Goswami and Himani Sarkar)



GREENLIGHTING: A Standard Chartered logo stands beside a traffic light in Taipei, Oct. 13, 2010.

REUTERS/NICKY LOH

StanChart sees big surge for commodities unit in '12

BY FLORENCE TAN AND
MANASH GOSWAMI
SINGAPORE, MAY 16

STANDARD CHARTERED Bank Plc's commodities trading unit may post a double-digit growth in 2012, as it boosts its share in the Asian market while the global financial crisis forces rivals to pare down operations in the region, a senior executive said.

Airlines, power companies and oil refineries are all expanding in Asia to feed its rapid economic growth, giving Asia-focused banks like StanChart an advantage over peers hit by their bigger exposure to the slowdown in the West.

"The biggest growth engine for us is more market share and more volume in Asia," Cyril Youinou, StanChart's global head of oil trading, told the Reuters Global Energy & Environment Summit. He declined to give a growth forecast.

"It has been a good crisis for us in the last three years as our credit rating has been upgraded while everybody else has mostly been downgraded and our clients have noticed this."

London-based Standard Chartered gets more than two-thirds of its income in Asia.

The bank expanded its commodities trading in 2008 after hiring a group of oil traders led by Arun Murthy from the now-defunct Lehman Brothers. Its focus in Asia

also helped as the global financial crisis has forced North American and European banks to scale back commodities trading in the past four years.

"A lot of clients that we are talking to have been a bit upset to see some of the banks that they have been trading within the past closing their commodities or the Asia desk," said Youinou, one of the ex-Lehman traders who joined in 2008.

French bank Natixis became the latest victim of the European debt crisis as it plans to close its commodities brokerage division. Credit Agricole, BNP Paribas and Societe Generale have all taken steps to cut exposure to dollar financing, reduce debt and boost capital ratios.

StanChart, which saw a 63 percent jump in commodities revenue in 2011, currently has 4,000 corporate clients that have commodities exposure but it offers commodities trading services to only 500-600 of them. As part of its growth plans, the bank will target to tap this pool of customers, Youinou said.

The unit started physical trading for oil and metals in 2010 and has seen its Oman crude trading volume on the Dubai Mercantile Exchange rise by 50 percent in the first quarter of 2012 from the same period a year ago, he said.

It may also start natural gas price hedges on the Henry Hub for its utilities customers if the U.S. starts exporting liquefied natural gas to Asia in 2015.

"If it becomes a global market, maybe some of our utilities clients in Asia will ask us for some hedge using this new benchmark Henry Hub," Youinou said. "We could potentially hire some natgas traders."

StanChart plans to hire up to two oil traders in Singapore and London this year, up from the current total of 12, to serve its growing pool of clients, he said.

Trade volumes are growing as end users hedge against forecasts of higher oil prices while producers seek protection from a sudden price plunge.

Producers, in particular shale oil operators in North America, have been actively hedging this year after oil prices climbed, Youinou said.

Brent crude is headed for a fourth consecutive year of gains in 2012 although prices, now near \$111 per barrel, have dropped more than 7 percent so far this month on a weak global economic outlook.

"With the price going lower in the first few weeks of May, we've seen a very big hedging flow from end users such as airlines, shippers, utilities," Youinou said, adding that Brent at \$110 is attractive for consumers.

"A forward price of below \$100 is extremely attractive" as the 2013-2014 consensus oil price among researchers is \$20 higher, he said.

Brent could rise above \$125 a barrel (bbl) in the second half of 2012, he said. Demand for oil products will increase while crude supply will tighten due to maintenance at North Sea fields, resumption in refinery operations after turnarounds and as the U.S. hurricane season approaches, he added.

"We believe China will keep on building their strategic reserves especially at this price," Youinou said. Quantitative easing, or bond buying, by the governments of the United States and Britain could also support



BIG OIL: An employee walks past oil tanks at a Sinopec refinery in Wuhan, China, April 25, 2012.

REUTERS/DARLEY SHEN



WATCHING THE NUMBERS: A journalist listens in front of a Standard Chartered logo at a Hong Kong news conference on the bank's results, Feb. 29, 2012.

REUTERS/BOBBY YIP

oil prices, Youinou said.

Yet, hedging costs for consumers could rise as new regulations and higher margins at exchanges have reduced liquidity in oil markets, Youinou said.

U.S. and European regulators have imposed new rules to curb speculative trading after U.S. crude surged to a record high above \$147 a barrel in 2008 and plunged subsequently.

Investment banks have cut back proprietary trading ahead of the Volcker rule, a draft U.S. law which would bar banks from the risky practice of betting in financial markets with

their own money to make a profit. New federal Dodd-Frank exchange rules mean members will have to pay the higher speculative margins to initiate a new position.

The lack of speculative flow to counter hedges from producers and consumers has pushed the oil curve into a deep backwardation where prompt prices are higher than those in future months, Youinou said.

"All these new regulations have a negative impact on the liquidity and it will make the cost of hedging more expensive for clients."

(Editing by Himani Sarkar)

Europe's gas suppliers to keep grip on market-E.ON

BY VERA ECKERT
LONDON, MAY 15

THE ROLE OF EUROPE'S traditional gas suppliers such as Russia and Norway will not be challenged by the prospect of new sources delivering into the continent, Germany's market leader E.ON Ruhrgas said.

"I do believe we will see Caspian gas in Europe. I also believe we will see more LNG (liquefied natural gas) arriving in the future," Klaus Schaefer, who doubles as chief of

Ruhrgas and of E.ON Energy Trading, said at the Reuters Global Energy & Environment Summit.

"The traditional suppliers will mostly keep their position," he said, adding the additional volumes would replace dwindling indigenous gas resources.

Various pipeline projects are vying for the opportunity to ship gas from Caspian sources such as Azerbaijan to Europe in the future when its own reserves run out.

Europe still produces 35 percent of its gas requirements but Russia has 22 percent and Norway 19 percent market share in the EU-27, according to data from industry group Eurogas.

Leading LNG supplier Qatar accounts for seven percent of Europe's supplies.

Germany, Europe's biggest economy, relies on Russia far more than other consumers, deriving 33 percent of its imports from that country, followed by Norway and the Netherlands.

E.ON remains tied into expensive pipeline contracts with long-term suppliers, with some European prices exceeding those in the U.S. by up to five times, albeit staying below those in Asia.

Losses from exposure to main supplier Gazprom alone has cost it 1 billion euros since October 2010 while the firm was also hit by Germany's hasty nuclear exit.

The reason is high global oil prices to which gas is index-linked in many European contracts while consumers refuse to buy at these levels after cheap spot gas has sprung up at trading hubs in Europe, pulling local prices down.

Schaefer reaffirmed the priority for his company to settle the dispute with Gazprom this year but would not be drawn on details.

"We believe that we will see a result this year either through negotiations or through a decision by arbitration," he said. "We cannot be more precise because it does not depend on us alone."

E.ON HAS RENEGOTIATED two-thirds of its loss-making gas contracts, most recently securing a deal with Norway's Statoil.

Schaefer said that global markets would move closer together but not to a degree allowing Europe to change its structure.

"The gas market is probably too physical and at the same time the cost of arbitrage still exists so I don't think we will see full arbitrage on a global scale," he said.

E.ON, apart from its involvement in the pipeline business, is also part of a number of new LNG landing terminal ventures around Northwest Europe and the Mediterranean.

Schaefer is a member of the shareholder committee of the consortium operating the new Nord Stream pipeline for Russian gas to Germany where E.ON holds 15.5 percent.

Set to complete a second pipe this year to take capacity to 55 billion cubic metres per year, Schaefer confirmed shareholders have asked the steering company to prepare a feasibility study looking at doubling that figure.

The International Energy Agency pegs EU import needs in 2030 at 523 bcm by 2030 compared with 312 bcm in 2009.

Schaefer was asked how the Nord Stream plan sat with the possible oversupply picture.

"Any normal company would rightfully at this point start asking what the future will bring," he said at the summit, held at the Reuters office in London.

"It does not point in any direction (regarding what action the project might take). It lays the foundation for the ability to take decisions."

(Editing by Jason Neely)



KLAUS
SCHAEFER

REUTERS/BENJAMIN BEAVAN



HOME BASE: Flags fly at E.ON Ruhrgas headquarters in Essen, Germany, Aug. 8, 2011.

REUTERS/WOLFGANG RATTAY

U.S. shale boom, European glut alter energy landscape

BY HENNING GLOYSTEIN
LONDON, MAY 16

THE SHALE ENERGY boom in North America will lead to an industrial revival in the region while Europe could benefit from a conventional gas glut that will help decouple it from surging global oil prices, according to industry leaders and analysts.

A boom in North American shale gas production in the past five years has resulted in sharp falls in domestic power and gas prices there and could turn North America from a gas importer into a large exporter, and a similar development is seen as underway in the oil sector.

"What happened in gas is happening in oil as we speak. The U.S. will become a net exporter of oil and gas in the next decade and the global repercussions of this are unbelievable," Daniel Jaeggi, co-founder and Head of Global Trading of Geneva-based commodities trading house Mercuria said during the Reuters Global Energy and Environment Summit.

"It fundamentally modifies the geopolitical landscape, and this is bullish U.S. They will have the cheapest power, gas, and oil and that could lead to an industrial revival as its industry becomes globally competitive again because of cheap energy."

Marco Dunand, Mercuria's chairman and its other co-founder, said at the same summit that "the U.S. and Canada are becoming energy independent and this will turn 6 upside down" and that the geopolitical dynamics of such a shift would be huge.

"Unconventional resources will be fracturing the role of energy super powers with major geopolitical implications," said Fatih Birol, Chief Economist of the International Energy (IEA) said at the same summit.

When asked which new technology he expected to contribute to significant change in the energy markets, he said hydraulic fracturing, or fracking was the one which would change the geopolitics of energy.

Christopher Wheaton, manager of the Allianz Energy Fund, also said that the shale boom could give North America a



PIPING: Workers add drilling pipes on the rotary table of a natural gas drilling rig near Towanda, Pennsylvania, Feb. 3, 2010.

REUTERS/TIM SHAFFER

competitive edge.

“What it does is give U.S. manufacturers a big energy cost advantage.”

Europe also stands to gain from a booming gas industry in the coming years, industry analysts and investors said, but from new conventional resources rather than in the shale sector.

“I think the outlook for gas has never been more promising. There’s going to be a lot of development in global gas in five to 10 years from now, and within the context of energy you have this long term juggernaut of gas,” Michael Hulme, Energy Fund Manager at Lombard Odie Asset Management said.

In Europe, hopes are set on recently discovered gas reserves in the eastern Mediterranean Sea, which some analysts say could exceed 100 trillion cubic feet, enough to supply Britain - the European Union’s biggest gas consumer - for almost 30 years.

While there are several ongoing maritime border disputes in the region of the largest Mediterranean gas finds, Mercuria’s Jaeggi said that the gas fields in Israeli and Cypriot waters were “extremely relevant” and that they would impact Europe’s gas markets.

THE EUROPEAN COMMISSION, keen to reduce its reliance on Russian gas imports, has also taken notice.

“We are in contact with our partners in Israel, Cyprus and also Turkey, and perhaps in one to two years we can decide on the infrastructure required to get the gas to Europe,” Europe’s Energy Commissioner Guenther Oettinger said during the summit, adding: “It is my interest to get as much gas as feasible into Europe from new regions.”

The wash of the Mediterranean gas finds would challenge the need to develop an expensive unconventional gas sector in Europe, Andrew Moorfield, Managing Director and Head of EMEA Energy at Canada’s Scotiabank told Reuters.

“Europe has such significant conventional gas resources that the entire European shale argument is challenged,” he said, adding that all that was needed to get the unconventional gas to Europe were pipelines, a tested and mature technology.

Moorfield also said that the glut in conventional gas supplies meant that Europe’s reliance on gas would increase while its dependency on oil would fall.

“The glut will shift Europe from an oil to a gas-driven economy, and this also plays into the hands of countries like Germany with its nuclear exit and renewables expansion plans.”

The view is echoed by the EU’s Oettinger.



ENERGETIC: European Energy Commissioner Guenther Oettinger addresses a news conference at the EU Commission headquarters in Brussels, Sept. 7, 2011.

REUTERS/THIERRY ROGE



BEYOND THE SEA: A gas drilling rig operated by Noble Energy sits in the Mediterranean off the coast of Cyprus, Nov. 21, 2011.

REUTERS/HANDOUT

“Oil consumption in Europe is decreasing while oil consumption globally is increasing,” he said and added that gas would be “the winner” of Germany’s nuclear exit and that Europe as a whole would increase its gas imports from new supply sources in the future.

As a result of the prospective shifts in North America and Europe, analysts said there would be three main gas price zones in the world, with some opportunity for arbitrage trading.

“The spread between North American natural gas prices and Asian LNG prices has been propelled to record levels of more than \$13 per million British thermal units (mmbtu) to Japan,” Barclays Capital said on Wednesday in a research note.

BarCap said that the high spread was a result of new lows for North American gas prices following the shale gas boom and strong global oil prices, to which LNG is often linked.

With Europe’s gas prices in between those

of North America and Asia, BarCap said it saw \$1 billion per day in LNG arbitrage opportunities. Mercuria, meanwhile, said it was looking to invest in LNG terminal assets in order to benefit from this opportunity.

The IEA’s Birol said that he expected the imbalance of gas prices between the United States, Europe and Asia to narrow once North America starts to export gas on a large scale.

Others, however, said that the United States would not open its gas market up for export in sufficient volumes to make massive global LNG arbitrage possible.

“The U.S. regulator will only ever allow a certain amount of natural gas to be exported” in order to protect its low domestic prices, Allianz Energy Fund’s Wheaton said, adding that this meant that U.S. shale gas would probably not impact gas prices elsewhere.

(Additional reporting by Vera Eckert and Karolin Schaps; Editing by Hans-Juergen Peters)

South Korea's KNOC eyes U.S. shale gas companies

BY MEEYOUNG CHO

SEOUL, MAY 14

Korea National Oil Corp is looking to acquire U.S. shale gas companies or assets as it seeks to secure liquefied natural gas (LNG) supplies to feed rising demand from the fourth-largest economy in Asia.

KNOC expects to spend an amount similar to what it had set aside last year - \$3.4 billion - on overseas oil and gas assets, Vice President Chang Sung-jin said in an interview for the Reuters Global Energy & Environment Summit.

South Korea's state oil firm also aims to boost output by 80,000 barrels of oil equivalent per day (boepd) to 300,000 boepd by adding new assets by the end of 2012 and raise it to 500,000 boepd by 2017.

"Given the economics and the possibility of bringing LNG in to domestic markets, we are carefully considering acquiring assets or companies to enter the U.S. shale gas sectors," Chang said, in an emailed response to questions.

"We are also studying the feasibility of entering the Chinese shale gas business."

South Korea, the world's No.5 crude oil importer and No. 2 LNG buyer, has been boosting overseas resources development as, like its regional peers, it grapples with inflation driven by costlier energy and commodities.

In March, KNOC said a consortium led by private equity firm Apollo Global Management LLC, of which it is a part, will buy U.S.-based El Paso Corp's oil and gas business for \$7.15 billion. Most of South Korea's oil and gas asset

acquisition is led by KNOC.

Vast new sources of shale gas, which have become easier to access with techniques like hydraulic fracturing, have flooded the United States with the fuel and pushed natural gas prices to 10-year lows, leading some producers to ask for permission to export it.

South Korea wants energy firms to supply 35 percent of the country's combined oil and gas imports from projects they own by 2020, compared with this year's self-sufficiency target of 20 percent, Chang noted.

KNOC currently produces about 220,000

boepd oil, and has 1.3 billion barrels of reserves, compared with a target of 2 billion barrels of reserves by the end of this year, Chang said.

"The firm is pushing forward with various projects, either by acquiring the asset or buying stakes," he said. "Some projects are expected to make a visible progress soon."

Overseas investments may be expensive in the short term due to current high oil prices, Chang said, but added that KNOC was going ahead with its investment plan given the long-term demand growth picture. Returns from such investments are usually spread over five to 20 years, he said.

For overseas investments, KNOC has so far this year raised \$1.7 billion via global bonds, and by selling some stakes in the U.S. Ankor offshore oil projects in January.

KNOC plans to secure additional capital via domestic and overseas markets if necessary, Chang added, without elaborating.

"We plan to make a similar level of investment this year to last year. In the mid- and long-term, we plan to continue investment to produce 500,000 bpd by 2017," Chang said, referring to last year's overseas oil and gas development investment at about

\$3.4 billion.

The South Korean economy ministry said last December that over 50 state-run and private domestic firms plan to invest a record-high combined \$11.8 billion this year to develop oil and gas resources.

A shale gas task force team had been set up by officials from the ministry, private firms, universities and research institutes to build energy and related business strategies.

The team plans to unveil comprehensive plans, including shale gas development and imports, in late August, according to a ministry statement.

(Editing by Manash Goswami and Himani Sarkar)



REUTERS/JO YONG HAK



SHALE GAME: A drilling rig in the Eagle Ford Shale in South Texas is seen in this Petrohawk Energy Corp handout photo released to Reuters on July 14, 2011.

REUTERS/HANDOUT

Climate deal milestones should come this year: U.N.

BY NINA CHESTNEY
LONDON, MAY 16

Countries that agreed to sign a deal in 2015 to cut greenhouse gas emissions should set milestones this year to ensure the necessary work is done on time, the United Nations' climate chief said.

Last year's U.N. climate talks in Durban, South Africa, agreed a package of measures which would eventually force all the world's polluters to take legally binding action to slow the pace of global warming.

Delegates agreed on the so-called "Durban Platform for Enhanced Action" - a process to develop a new protocol, legal instrument or legally binding deal by 2015 which would apply to all parties under the U.N.'s climate convention and would come into force no later than 2020.

But a clear timetable and targets for this process have not yet been set.

"Parties need to think between now and Doha how they want to organise their work between now and 2015 and how they will move towards that legal agreement," Christiana Figueres, executive secretary of the U.N.'s Framework Convention on Climate Change told the Reuters Global Energy & Environment Summit.

"My hope is they will establish milestones along the way so they are able to measure their progress."

U.N. climate talks are currently taking place in Bonn, Germany until May 25. More talks are expected in South Korea in the autumn and in Doha, Qatar, at the end of this year.

A working group on the Durban Platform will be launched later this week at the Bonn talks.

"How they want to do that (set milestones) might be more for the end of this week once we hear the first statement from (the group)," Figueres added via conference call at the Reuters summit in London.

Other issues to be discussed in Bonn and in Qatar at the end of this year include how to implement an extension to the Kyoto Protocol and how long that will last; how to raise ambition on emissions cut pledges, and raising long-term finance to help more vulnerable countries adapt to the harmful effects of climate change.

The Durban climate talks agreed on the design of a Green Climate Fund, which should help channel up to \$100 billion a year by 2020 to developing countries most affected by climate change.

The fund is still empty, although discussion

of ways to fill it are ongoing, Figueres said.

Many countries, including the European Union, have yet to come up with a plan to provide long-term climate financing, against the backdrop of globally depressed economies and the euro zone crisis.

Financing the fund cannot happen until its board is constituted and that is still being decided, after more countries applied for board seats than are available.

"Not until we have the full board nominated can we go forward on programming and planning the first board meeting," said Figueres.

"There is more enthusiasm than seats. The challenge is to fit (countries) around the table."

The first board meeting is scheduled for May 31 but a delay seems increasingly likely if the board is not agreed soon.

"We would highly welcome being able to respect the current dates for the board but it makes no sense to call for a board meeting before all countries have agreed how it is going to be constituted," she said.

"We will know within next few days how likely that going to be."

(Additional reporting by John McGarrity in Bonn; Editing by Hans-Juergen Peters)



HANGING IN THERE: Artist Vincent J.F. Huang's comment on global warming, "Suicide Penguins," hangs below the Millennium Bridge in London, Feb. 13, 2010.



CHRISTIANA FIGUERES

ENERGY REVIEW

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REUTERS/ LUKE MACGREGOR

REUTERS/INA FASSBENDER

UK wants EU focus on new CO2 cuts, not renewables

BY NINA CHESTNEY AND BARBARA LEWIS
LONDON, MAY 14

EUROPE SHOULD FOCUS on cutting carbon emissions, rather than just repeating an existing range of EU green policy targets that expire at the end of the decade, Britain's energy and climate chief said.

Business, which needs investment certainty, has been heaping pressure on the European Commission to come up with policy to replace goals that expire in 2020.

"We should be moving towards outcome targets," Edward Davey, Britain's secretary of state for energy and climate change, told Reuters' Global Energy and Environment Summit. "Carbon emissions should be the key target."

He was asked whether Britain would support another target for renewable energy once the EU goal to increase the share of green energy in the mix to 20 percent expires at the end of the decade.

"Clustering looks like a good approach, but I'm not saying it's the only approach."

"While we think the renewables target for 2020 is a very good target and we believe we are on track to meet it, in terms of another renewables target, we have to think about what we are trying to achieve here," he said.

His preference was for "outcome targets," such as a new goal on carbon cutting, rather than setting another target for renewables, which are becoming more economically viable.

He would not specify what level of new EU carbon target Britain might support, but said Britain was already "one of the most ambitious, if not the most ambitious."

Britain has a national target of reducing carbon dioxide emissions by 34 percent by 2020 from 1990 levels, compared with an EU-wide goal of a 20 percent reduction.

It also aims to cut CO2 emissions at least 80 percent below 1990 levels by 2050.

Some in business as well as members of the 27-nation bloc are keen for a new set of firm targets, but Britain and France, have said a renewables target could be unfair on other forms of low-carbon power. Both nations strongly support nuclear power, which generates electricity without any carbon emissions.

Nuclear energy policy in Britain faces

major setbacks following reports the cost of replacing ageing reactors increased dramatically in the past year, making power produced from new plants not affordable without government help.

Power prices are far too low - at less than 50 pounds per megawatt hour - to justify commercial investment in nuclear power without government help.

Poland, which has defended its right to burn coal, has opposed a new EU renewables goal and also blocked attempts to raise ambition on cutting carbon.

Britain sees carbon-capture and storage (CCS) technology as one way to help reduce carbon emissions from power plants and last month relaunched a one billion pound CCS funding competition.

Davey told the summit that building carbon capture and storage (CCS) plants in a cluster was "a good approach," boosting chances for companies which share carbon pipeline infrastructure to secure some of the state funding made available for UK CCS projects.

"I think it is a fair point to say that clustering looks like a good approach, but I'm not saying it's the only approach," Davey said.

CCS developers face a July 3 deadline to submit bids for the programme, which will financially support one or several CCS projects to start between 2016-2020.

One such cluster project involves the White Rose CCS plant proposed by British power producer Drax, France's Alstom and BOC who are discussing linking up with a Doncaster-based CCS project proposed by ZCo Energy and Samsung C&T.

The government will reveal later this year or early next year which projects will sign front-end engineering and design contracts.

Davey also said the government was ready to support the exploration of shale gas, but that a cautious approach was necessary to ensure shale gas fracking was carried out safely.

"I don't think we should close down any options, but to proceed with developing shale gas, one has to make sure one has a very, very robust regulatory regime," Davey said.

The government temporarily imposed a ban on shale gas fracking last year when a



BLOWING IN THE WIND: An electricity pylon stands near wind turbines at the Dun Law West wind farm near Edinburgh, Scotland, Jan. 8, 2010.

REUTERS/DAVID MOIR

number of earth tremors were measured near a site where fracking was being carried out.

An independent report advised last month that the UK government should allow fracking to continue under stricter reporting guidelines.

The government is due to make an official response to the report after an ongoing consultation period.

Davey added that shale gas reserves in the UK were not the biggest outside of North America, where its discovery has transformed

the U.S. gas market, and that exploration in other countries with larger reserves, such as Algeria, the Ukraine or China, would be more significant to the global market.

(Additional reporting by Karolin Schaps; Editing by William Hardy and Alison Birrane)

EU airlines' carbon cash should benefit climate fund

BY BARBARA LEWIS AND NINA CHESTNEY
BRUSSELS/LONDON, MAY 15

EU nations should pledge that funds from paying for airline emissions will help poor countries deal with global warming, the bloc's climate chief said, after finance ministers stopped short of a firm commitment.

Crisis in Greece and the euro-zone topped the agenda at the ministers' talks in Brussels, but they also agreed to text on climate funding, which only promised hard cash until the end of the year.

A solution for the longer term would be to "give this modest revenue back into climate financing," Climate Commissioner Connie Hedegaard told Reuters' Global Energy and Environment Summit, referring to cash from the airlines' contribution to the Emissions Trading Scheme (ETS).

It could also deflect vehement international criticism of the EU's law, which requires all airlines using EU airports to buy allowances under the ETS.

"Some thought we were just taking this money and saying it was a tax," Hedegaard said.

"Financial ministers have started this discussion by saying it could go into this (climate funding), but through national budgets."

The European Union re-committed to providing 7.2 billion euros (\$9.4 billion) for a pot of climate money referred to as "fast-track financing", covering the period 2010-12.

After that, a Green Climate Fund will be seeking to channel funds of up to \$100 billion per year by 2020. The fund's design was agreed at U.N. talks in Durban, South Africa, last year, but environmental campaigners say it is an empty shell.

EU economic and finance ministers on Tuesday could only agree to "work



ABOVE THE SMOKE: A plane flies above Ratcliffe Power Station in central England on July 1, 2008.

REUTERS/DARREN STAPLES

in a constructive manner towards the identification of a path for scaling up climate finance from 2013 to 2020".

Further debate on where the funds might come from is expected at U.N. climate talks in Germany this week and next.

The EU finance ministers' text mentioned a variety of sources, both public and private, as well as auctions of aviation allowances in the EU ETS.

It added it was up to each member state to determine "the use of public revenues in accordance with national budgetary rules".

Within the EU, so far only Germany has come up with legislation to earmark ETS cash - which derives from utilities and heavy industry, as well as airlines - for environmental purposes.

The funds associated with the law requiring all flights in and out of EU airports to participate in the EU ETS are so far relatively modest as carbon allowances have sunk to record lows and initially, many are being handed out for free.

The fiercest opponents of the EU law - India and China, whose airlines missed a March

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31 deadline to submit emissions data - are fighting over principle, not just cost.

India has argued the carbon charge sets a dangerous precedent and analysts have said the emerging powers are opposed to being treated on a level with developed nations, which have polluted for decades.

To resolve the row over the airline emissions law, the EU is looking to the U.N.'s International Civil Aviation Organization to come up with a global scheme for curbing the rise in emissions from aircraft, which would give the EU reason to modify its law.

The EU only came up with its carbon law because years of talks at ICAO had failed to deliver a solution for aviation emissions. Still Hedegaard said she stood by the ICAO as the way out of the current dispute.

"In politics, you should never have a B plan," she said. "You would never get your A plan through."

(Editing by David Gregorio)

Summit speakers



HARRIS ANTONIOU
Global Head of Energy, Commodities & Transportation
ABN AMRO



FATIH BIROL
Chief Economist
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PETER CELLA
CEO
Chevron Phillips Chemical



SUNG-JIN CHANG
Vice President
Korea National Oil Corp



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Secretary of State for Energy and Climate Change
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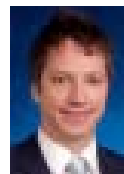
PHILIP WOLFE
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MODERN TIMES: A worker helps weld the “golden” seam symbolizing the modernization of Ukrainian gas pipeline Urengoi-Pomary-Uzhhorod, near Bohuslav, July 19, 2011.



DAVID WOMACK
Director of Strategy and Business Development, Chemicals, Petroleum and Industrial Products
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CYRIL YOUNOINOU
Global Head of Oil
Standard Chartered

REUTERS/INNA SOKOLOVSKA

SMOGGY VIEW: Smoke rises from a chimney of a garbage processing plant on the outskirts of the northern Indian city of Chandigarh, Dec. 8, 2010.



REUTERS/AJAY VERMA

COVER PHOTOS: (Top) Demonstrators hold a giant "Occupy Earth" banner calling for the cancellation of the Keystone XL pipeline in front of the White House in Washington, Nov. 6, 2011. (REUTERS/Joshua Roberts); (Center left) The sun is pictured through a flag during a demonstration against the German governments planned cuts in solar power incentives, in Berlin March 5, 2012. (REUTERS/Tobias Schwarz); (Center right) Black smoke is seen at a Homs refinery in Homs, Syria, Feb. 15, 2012 (Handout/REUTERS); (Lower left) A vehicle passes a sign for the Low Emissions Zone at Coulsdon in London, Feb. 3, 2008. (REUTERS/Luke MacGregor); (Lower right) The Keystone Oil Pipeline is shown under construction in North Dakota in this undated photograph released Jan. 18, 2012. (Handout/REUTERS)

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